

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE JUNE 21, 2006 PENSION BOARD MEETING

1. Call to Order

Vice Chairman John Martin called the meeting to order at 8:45 a.m. in the Gordon Park Pavilion at 2828 North Humboldt Boulevard, Milwaukee, Wisconsin 53212.

2. Roll Call

Members Present:

Linda Bedford
Donald Cohen
Walter Lanier
John Martin
Marilyn Mayr
John Parish

Members Excused:

Michael Ostermeyer
Dean Roepke
Thomas Weber

Others Present:

Chuck McDowell, Director of Human Resources
Jack Hohrein, ERS Manager and Pension Board Secretary
Mark Grady, Principal Assistant Corporation Counsel
Gordon Mueller, ERS Fiscal Officer
Vivian Aikin, ERS Administrative Specialist
Ann To, Milwaukee County
Doug Jenkins, Deputy Director of Audit
Steven Huff, Reinhart Boerner Van Deuren s.c.
Leigh Riley, Foley & Lardner LLP
Neifor Acosta, Gonzalez, Saggio & Harlan LLP
Timothy Pagel, Corporation Counsel intern
Kim Nicholl, Buck Consultants
Matthew Strom, Buck Consultants
Barrett Rodriguez, Vitech Systems
Matt Lehan, Vitech Systems
Wayne Shiu, Vitech Systems
Rick Ceschin, County Board Research Analyst
Denal Crawford, DC 48 Liaison
Louis Metz, Retiree
Nancy Beck-Metz, Retiree
Florence Ignarski, Retiree
Cliff Van Beek, Retiree
Ken Loeffel, Retiree
Michael Howden, Retiree
Dave Umhoefer, Milwaukee Journal Sentinel

3. Approval of Minutes of May 17, 2006 Meeting

The Board reviewed and unanimously approved the minutes of the May 17, 2006 Pension Board meeting, as amended to indicate that John Parish had attended Vitech's technical viewing presentation and to include Ms. Mayr's concern that not pursuing waivers could reduce pension assets. Motion by Ms. Bedford, seconded by Mr. Cohen.

4. Report of Retirement Systems Manager

(a) Ratification of Retirements Granted

Mr. Hohrein presented the schedule of Retirements Granted for the prior month's retirements and asked the Board to review them.

The Board unanimously approved the schedule of Retirements Granted. Motion by Mr. Cohen, seconded by Ms. Mayr.

(b) Report on Waivers

Mr. Hohrein presented waivers of the 25% bonus, 0.5% multiplier enhancement and backDROP benefit submitted by Charles Ward, Chief of Operations, David Hopkins, Assistant Director, Department on Aging and Alexandra Kotze, Fiscal Management Analyst 2.

Ms. Mayr requested that the chart of waivers accepted be updated to include the dates that the waivers were signed. Mr. Grady suggested that any issues regarding waivers be referred to Mr. Hohrein. Mr. Huff noted the most recent waiver forms had been sent to Mr. Hohrein and that the new versions included a footer indicating that they were last updated in June 2006. Mr. Huff suggested routing the new versions to all relevant departments and asking them to purge old versions of the waivers. Mr. Grady clarified that waivers presented on the old forms were still valid.

The Board unanimously agreed to accept the waivers presented. Motion by Mr. Cohen, seconded by Mr. Parish.

5. Cash Liquidity Report – Retirement System Fiscal Officer

Mr. Mueller presented the cash liquidity report. He indicated that ERS had received the last County lump sum contribution at the end of June. He reported that ERS will need \$5 million in June, \$10 million in July and \$10 million in

August, which conforms to prior estimates. Mr. Mueller indicated that he does not expect these amounts to change. Mr. Martin suggested that Mr. Mueller contact Mercer regarding the funds from which to liquidate funds.

The Board unanimously approved the liquidation of the amounts needed for June, July and August, from the managers recommended by Mercer, subject to the terms of the liquidation policy and investment policy. Motion by Mr. Martin, seconded by Ms. Bedford.

6. Report on Pension Staff Reorganization – Director of Human Resources

Mr. McDowell reported that the Department of Human Resources had proposed a structure to help the Retirement Office improve efficiency and effectiveness. He indicated that the Department had reevaluated the organization of the Retirement Office due to the retirement of Gloria Morris and created new functions for the automated future of the Retirement Office, including three reclassified positions.

Mr. McDowell indicated that the proposal responds to the recommendation in the Virchow Krause operational audit to provide back up for Retirement Office staff positions. He informed the Board that one position would be a fiscal intern to provide support for Mr. Mueller and to document duties and steps of his position for purposes of drafting a policies and procedures manual. He reported that there would also be a quality control position, which would fill the position left vacant by Ms. Morris and keep the Retirement Office's operations running smoothly. He also described the administrative specialist position, which would respond to special requests.

7. Implementation of New Technology Software – Vitech Systems

Mr. Rodriguez, Mr. Lehan and Mr. Shiu of Vitech Systems and Ann To presented a report to the Board regarding the status of the V3 Project implementation. They confirmed that the implementation of the system was running three months behind, as reported at the last Board meeting and explained that the delay was due to the additional time necessary to evaluate the work done by staff. They also reported that they had reorganized elements of the project to avoid additional delays.

The Vitech representatives discussed the Solutions Design Phase, which is the current project phase. They reported that this phase is approximately 40% complete. They explained that a major part of the phase is constructing flowcharts outlining how work will be performed using the V3 System. They described next month's activities, which include holding meetings to review workflows and begin

the Business Processing Mapping Document, which will detail the current process and its transformation into a streamlined operation under V3.

The Vitech representatives described the next steps in the process, including the beginning of the Solution Delivery – Core System phase. This phase consists of rolling out the main pension functionality that the Retirement Office will use on a daily basis. In response to a question from Mr. Metz, they also explained that the Solutions Delivery – Self Service phase would now be the last step completed. This phase is the rollout of functionality that retirees will use to interact directly with the pension system, instead of having to call the Retirement Office.

The Board discussed Vitech's concerns regarding availability of Retirement Office staff to assist in the V3 implementation and the effect of the staffing reorganization plan. Mr. Martin reiterated the Chairman's request that Vitech apprise the Board in writing of proposed solutions and action plans for any problems, concerns, issues or reasons that the project is behind schedule. The Pension Board wants specific steps identified. Mr. Rodriguez responded that scheduling Mr. Shupe, working with Ms. To, five days a week to Vitech would assist in the implementation.

8. Investments – Mercer

The Mercer representatives were unable to attend the meeting in person. The Board attempted to confer with Mercer by telephone but was unable to do so, due to technical difficulties.

9. Audit Committee Report

The Chairman distributed, for information only, the minutes of the May 25, 2006 Audit and Compliance Committee Meeting and a proposed charter for the committee. The Board reviewed the minutes of the Audit Committee meeting. Ms. Mayr pointed out two concerns about the reference to moving expenses. First, the Audit Committee does not have power and authority to vote to approve moving expenses. Second, the County records indicate that the Pension Board took action to approve moving expenses, when it has not done so.

The Chairman reminded the Board that authority over the Director of ERS rests with the County Director of Human Resources. Accordingly, the County Board must first act on approval or disapproval of payment of moving expenses. First the Audit Committee of the Pension Board and then the full Pension Board will carefully review whether to approve cross-charges from the County to the Pension Board for the moving expenses.

The Chairman requested that staff communicate to the Chairman of the County Board and the Chairman of the Personnel Committee, with a copy to him, that the process to be followed is as follows: The County must first decide whether to reimburse moving expenses, as requested by the Director of Human Resources. The Pension Board will then determine whether to pay any cross-charge proposed by the County. Thus he clarified that cross-charges to ERS should be addressed by the Pension Board after the County Board takes action.

In response to comments from retiree attendees about review of cross-charges, the Chairman stated that the Pension Board conducts rigorous reviews of all issues. Only after thorough, careful and diligent review does the Pension Board take action. Although the Board will take into account public perception of its decisions, the Board will not act in a way that fails to satisfy its fiduciary duties.

The Chairman noted that many things are controlled by the County, not the Pension Board. They include pension benefit levels and employment of staff. He indicated that the Board has selflessly attempted to administer ERS properly and to invest ERS's assets wisely and at low cost. The Chairman also noted that ERS has been in the top 2 or 3 performers in its peer group, based on return and risk.

Mr. Jenkins' suggested that the Audit Committee charter be revised to clarify the relationship between the committee and the County auditor. That is, the County auditor works with the Pension Board, but works for the County Board Chairman.

10. Assumption Review and Contribution Request – Buck Consultants

Ms. Nicholl and Mr. Strom addressed the Board on behalf of Buck Consultants. First, they summarized the 2006 valuation results. They described the rate of return on market and actuarial assets for 2005, contributions to be made in 2007 for the 2006 plan year and assumption changes that were effective for the 2006 valuation. They indicated that ERS earned 8.3% in 2005 and that they would work with staff to reconcile the 9.6% earnings rate reported by Mercer.

Next, Ms. Nicholl and Mr. Strom explained the objectives of the actuarial valuation process. These objectives are to determine the actual contribution for the current plan year and budget contribution for the next plan year, to check on the progress and security of promised benefits by comparing assets to accrued liabilities and to measure net actuarial gain or loss by comparing the actual experience to the expected experience.

The Buck representatives also reviewed ERS membership as of January 1, 2006, including active and inactive member statistics and a ten-year history of member demographics.

Ms. Nicholl and Mr. Strom addressed market and actuarial asset value and actuarial assumptions in detail. They explained that demographic assumptions and economic assumptions are considered in the actuarial valuation process. They also noted that the ERS actuarial valuation should take into account assumptions regarding back DROP rates and type of disability. Ms. Nicholl and Mr. Strom indicated that assumptions are reviewed annually for consistency with current experience and economic conditions. They also indicated that, at least once every five years, the actual historical experience is compared to the assumptions. They recommended conducting the next study in 2007, although it is scheduled for 2008. The Buck representatives next described methods of funding ERS.

The Buck representatives reported that they had reviewed the ERS assumptions in more detail since the May 17, 2006 Pension Board meeting and accordingly recommended changes to two assumptions. First, they recommended that payroll growth assumption be changed to 3.5% from 5.5% for ERS and to 3% from 5% for OBRA to bring the assumption into compliance with GASB 25. They also recommended that the assumptions regarding disability benefits be revised to 25% Ordinary/75% Accidental for represented employees and 95% Ordinary/5% Accidental for non-represented employees.

Finally, Ms. Nicholl and Mr. Strom reviewed the next steps regarding the actuarial valuation. They indicated that the Board should approve the 2007 budget assumptions and, if acceptable and in accordance with Ordinances, send a letter to the County Board requesting funds. The Chairman noted that the Pension Board follows a process of determining assumptions. Those assumptions lead to a contribution amount.

After discussing the Buck presentation, the Board took the following action:

The Board unanimously agreed to accept Buck's recommended changes to ERS's payroll and accidental disability assumptions. Motion by Mr. Cohen, seconded by Mr. Martin.

The Board unanimously agreed to reschedule the five-year experience review from 2008 to 2007. Motion by Mr. Martin, seconded by Mr. Parish.

11. Closed Session

The Chairman stated that the Board could enter closed session for considering financial, medical, social or personal information, of which the Board has actual knowledge and which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of the person mentioned. For example, the

Board may elect to enter closed session to discuss an individual's disability retirement application, which may entail discussions of, among other things, medical records of the applicant.

The Chairman also noted that the Board would enter closed session to confer with its legal counsel, who is rendering oral or written advice concerning strategy to be adopted with respect to litigation in which it is, or is likely to become, involved.

The Board unanimously agreed by roll call vote to enter closed session to consider Items 12 and 13.

12. Disability Applications

Upon returning to open session, the Board took the following action:

(a) Lori Faledas – Ordinary

Consistent with the recommendation of the Medical Board, the Board unanimously agreed to grant the ordinary disability application of Lori Faledas. Motion by Mr. Parish, seconded by Mr. Martin.

(b) Jonie Bandt – Ordinary

Consistent with the recommendation of the Medical Board, the Board unanimously agreed to grant the ordinary disability application of Jonie Bandt. Motion by Ms. Bedford, seconded by Mr. Martin.

13. Legal Update

This item was discussed in closed session.

14. Administrative Matters

The Chairman proposed that the Board consider organizing a Board retreat for professional education in the near future.

15. Adjournment

The meeting adjourned at 1:00 p.m.

Submitted by Steven D. Huff,
Assistant Secretary to the Pension Board